

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ULUNDI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ulundi Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Going concern

8. As disclosed in note 46.3 the annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next twelve months. Immediate indication of going concern problems include unspent conditional grants totalling R11,917 million and consumer deposits totalling R1,485 million not cash backed.

Unauthorised expenditure

9. Unauthorised expenditure totalling R3,143 million was incurred as a result of overspending on the budget in respect of employee cost. This amount has been disclosed in note 37.3 in the financial statements.

Material losses

10. As disclosed in note 45 to the financial statements, the municipality suffered distribution losses to the value of R15, 366 million during the financial year under review. This equates to 43,21% of the units purchased for the year.

Restatement of corresponding figures

11. As disclosed in note 48 to the financial statements, the corresponding figures for 2010-11 financial years have been restated as a result of errors discovered in 2011-12 financial statements for the year ended 30 June 2011.

Fruitless and Wasteful expenditure

12. As disclosed in note 37 to the financial statements, the municipality has disclosed fruitless and wasteful expenditure of R917 000.

Additional

13. I draw attention to the matters below. My opinion is not modified in respect of this matter.

Unaudited supplementary information

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance

with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPP)*. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the Ulundi Municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Annual financial statements

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, investment property, unauthorised expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

21. The accounting officer did not take reasonable steps to prevent unauthorised expenditure totalling R3,143 million, as required by section 62(1)(d) of the MFMA.
22. Monies owing were not always paid within 30 days of receiving an invoice or statement, as required by section 65(2) of the MFMA.

Strategic planning and performance management

23. The municipality did not make public within 14 days of the adoption of the integrated development plan by council as required by section 24(4) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Budgets

24. The municipality did not submit the approved budget within 10 working days of the approval by council and the service delivery budget implementation plan within three months of the approval of the plan by the mayor as required by section 20(2)(b) of the MFMA.
25. The municipal manager did not make public the approved service delivery and budget implementation plan plans within 10 days after they were approved by the mayor, as required by section 21(a) of the MSA and municipal budget and reporting regulation 19 (GNR 393 of 17 April 2009).

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

27. Management has not exercised oversight of the financial statement preparation, asset register and compliance with regulations relating to performance information as material misstatements were identified in the financial statements during the audit.

Financial and performance management

28. Management has not implemented adequate controls to ensure that the financial statements are prepared in accordance with the Standards of GRAP and are supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit.

Pietermaritzburg

30 November 2012



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence